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Item 9 of the provisional agenda

INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Estimated resource level and programme for 1997-1998

Report by the Director-General

Summary

Reviews the approvals of projects financed by the Industrial Development Fund and describes the approach by the Secretariat for the programming of the Fund for 1997 and 1998.

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Introduction

1. In view of the small amount available in the regular budget for technical cooperation, extrabudgetary funding is essential to enable the organization to fulfil its mandate and to address the priorities approved by Member States. The Industrial Development Fund (IDF) is the central financing mechanism for such funding of UNIDO technical cooperation programmes and projects.

2. The present report provides information on the volume of funding provided through IDF in 1995, broken down by medium-term plan priority and by region. Starting with 1996, projects will be classified based on the seven thematic priorities that were endorsed by the General Conference in December 1995 (GC.6/Res.1). The report also describes the approach for programming IDF resources in 1997 and 1998.

I. OVERVIEW OF 1995

3. In previous reports, separate figures were given for pledges made and approvals under IDF. In the interest of clarity, however, only actual approvals will be reported in the future. On the one hand many IDF contributions are made through approval of projects without any pledge having been made beforehand, and on the other not all pledges result in actual contributions.

4. Approvals in 1995 reached $22 million (including revisions to ongoing projects but excluding Montreal Protocol), as compared with $23 million in 1994. As reported for 1994, the Secretariat continues its policy of greater selectivity in relation to projects submitted to potential donors, as well as ensuring higher quality. This is demonstrated by the percentage of submitted projects that are actually approved, although projects submitted in one year may be approved only in the following year (see figure 1).

5. Figure 2 shows new approvals under IDF by medium-term plan priority. Net approvals (including revisions) (excluding Montreal Protocol) by region are shown in figure 3. It must be emphasized that, owing to the extremely high portion of special-purpose funding under IDF, the Secretariat is largely dependent upon donor policies and priorities in terms of programming by regions or priority. Thus, despite efforts to achieve a balanced distribution, the actual spread is heavily influenced by donor policies and priorities. However, the development of the seven thematic priorities and the high impact programmes that were an integral part of the reform are expected to be reflected in approvals in 1996.

6. Net IDF approvals funded by the Montreal Protocol, broken down by region, are shown in figure 4. This source of funds is now financing a large ongoing UNIDO programme in an area of high international priority. Approval authority here is also not with UNIDO, and there is only limited influence on regional allocations. Nonetheless, project development efforts are spreading to those regions that have received fewer benefits from the Montreal Protocol. However, it must be borne in mind that not all countries are signatories to the Protocol, a pre-condition for eligibility for funding.

II. STRATEGY FOR 1997 AND 1998

7. For IDF, priority will be awarded to programmes and projects developed under the thematic priorities and the new approach to developing UNIDO service programmes (see IDB.15/14, paras. 13-17). These are:

(a) Strategies, policies and institution-building for global economic integration;

(b) Environment and energy;

(c) Small and medium enterprises;

(d) Innovation, productivity and quality for international competitiveness;

(e) Industrial information, investment and technology promotion;

(f) Rural industrial development;

(g) Africa and the least developed countries (LDCs): Linking industry with agriculture.

In terms of regional distribution, priority will be given to Africa and LDCs.

8. The focusing of UNIDO on these thematic priorities and on developing a critical mass of expertise for, and a consistent approach to, these priority areas is expected to improve funds mobilization. The more concentrated programme development activities foreseen for the limited number of high priority large-scale programmes and projects will facilitate early contacts with all categories of prospective donors and, where appropriate, involve such donors in the programme development phase.

9. The new approach—with enhanced consultation with Governments, beneficiaries and other relevant parties—is also expected to lead to proposals of a higher quality. This will also be achieved by ensuring effective teamwork within the Organization.

10. The new approach, whereby funds mobilization efforts are integrated in the programme/project development phase and in part delegated to the programme development teams, will facilitate donor involvement, also through their bilateral missions in the developing countries. It is anticipated that this approach will improve the responsiveness of the Organization,

both to recipients as well as to donors, and strengthen the capacity of UNIDO to mobilize funds.

11. To translate the thematic priorities into actual country-level programmes, IDF will play a central role. Sufficient freely programmable IDF resources are essential to enable UNIDO to undertake the preparatory analytical and consultative phase required to develop tailor-made comprehensive programmes under the seven thematic priorities at the country level. The Fund should also be the main source of financing for core parts of programmes, developed to attract complementary funding from other sources (e.g. United Nations Development Programme, bilateral sources, third-party and self-financing trust funds). Attaining the long-standing IDF target of $50 million per year established by the policy-making organs, of which $10 million would make up the general-purpose convertible segment, must be considered essential to cover the priority areas and attract sufficient complementary resources.

12. In order to increase the level of resources made available through IDF, the Secretariat is working with existing donors to increase their contributions. In addition, the Secretariat is trying to develop relations with additional potential contributors. This includes other ministries or organizations in the main donor countries in addition to the regular contributor. For instance, ministries responsible for environment or trade might have interest in specific UNIDO programmes and projects, or specialized development agencies might be willing to fund projects or cooperate with UNIDO.

13. Efforts will also be renewed to approach the more developed of the developing countries. For example, on the lines of the long-standing contributions that India makes to both the essential general-purpose convertible pool and special-purpose segments of IDF, these countries could make important contributions to activities of the Organization. Such contributions would of course also be very important to support South-South co-operation. Such initiatives could relate to more industrialized countries in one region helping their less developed neighbours—for instance, the ASEAN countries could be specifically interested in LDCs in the Asian region. Other models could include South-South cooperation between subregional groupings of countries, e.g. ASEAN and Mercosur.

14. New approaches will also be made to developed countries that, for various reasons, have so far not yet regularly contributed to the Fund. This will in part be done in specific contexts—for instance an approach could be related to the Mediterranean region, where the European countries may have specific interest in the North African countries.

15. Other initiatives to increase available resources include funds mobilization through the Internet, where the UNIDO home page (HTTP://www.unido.org) has started listing project profiles for which donors have not yet been identified. Where appropriate, targeted approaches using the Internet to submit projects to specific organizations are envisaged.

16. It is evident that new donors might opt to channel their funds through trust funds rather than IDF itself. However, in terms of programmatic importance this mechanism is not really different from special-purpose IDF contributions.

17. Under the new programme/project cycle approach, UNIDO builds on the quality assurance and evaluation systems already integrated in the work of the Organization and will seek to strengthen them further. Objectives-oriented project planning methodologies and workshops, so far used for projects, are expected to be applied as well to programmes where their positive impact can be even more important.

18. To increase the leverage of IDF, the Secretariat will actively pursue complementarity of other funds with IDF, for example:

(a) Part of the Regular Programme for Technical Cooperation and the general-purpose convertible component of IDF will be used to develop programmes and projects (seed money) that are expected to attract funding, with the Regular Programme focused on the earliest stages of programme development and IDF on the development of programmes and projects ready for submission to donors;

(b) IDF funding for central components of integrated programmes will be used to attract complementary funding for specialized components of such programmes.

19. In summary, the Secretariat will concentrate its IDF strategy on the following:

(a) Definition, promotion and implementation of a limited number of high-quality, large-scale programmes and projects;

(b) The programmes/projects will build upon UNIDO experience and success stories in terms of provision of knowledge-based services through high-level and multidisciplinary expertise;

(c) Small-scale projects will be confined to those of a preparatory assistance nature and to strategic projects for the provision of high-level advice to solve specific problems;

(d) The programmable resources of UNIDO under the general-purpose convertible segment of IDF will be utilized mainly for preparatory assistance and assessment of needs;

(e) Quality management will continue to be strengthened and will encompass all stages of project development, including implementation;

(f) Human and financial resources will be concentrated on selected activities. Focus will be awarded to the thematic priority programmes outlined in paragraph 8 above.

III. ACTION REQUIRED OF THE COMMITTEE

20. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General contained in document IDB.16/3-PBC.12/3;

"(b) Approves the approach for 1997 and 1998 as contained in that document;

"(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1997 and 1998 in accordance with the seven thematic priorities;

"(d) Encourages Member States:

"(i) To increase their pledges to the Industrial Development Fund to ensure that the desirable annual funding level of $50 million be reached as soon as possible through governmental contributions;

"(ii) To provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $10 million may be achieved as soon as possible;

"(iii) To consider providing umbrella contributions for financing preparatory assistance of large-scale activities and/or as contributions towards the seven thematic priorities."

Figure 1

New IDF approvals as a percentage of projects submitted

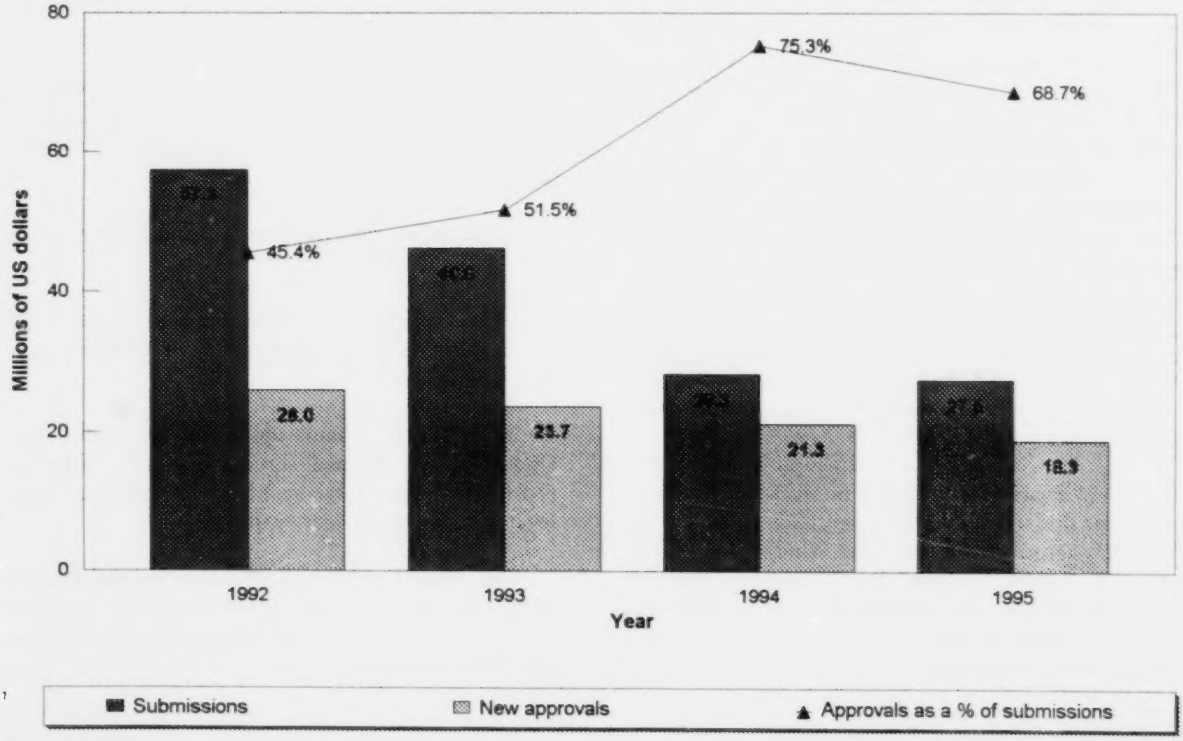
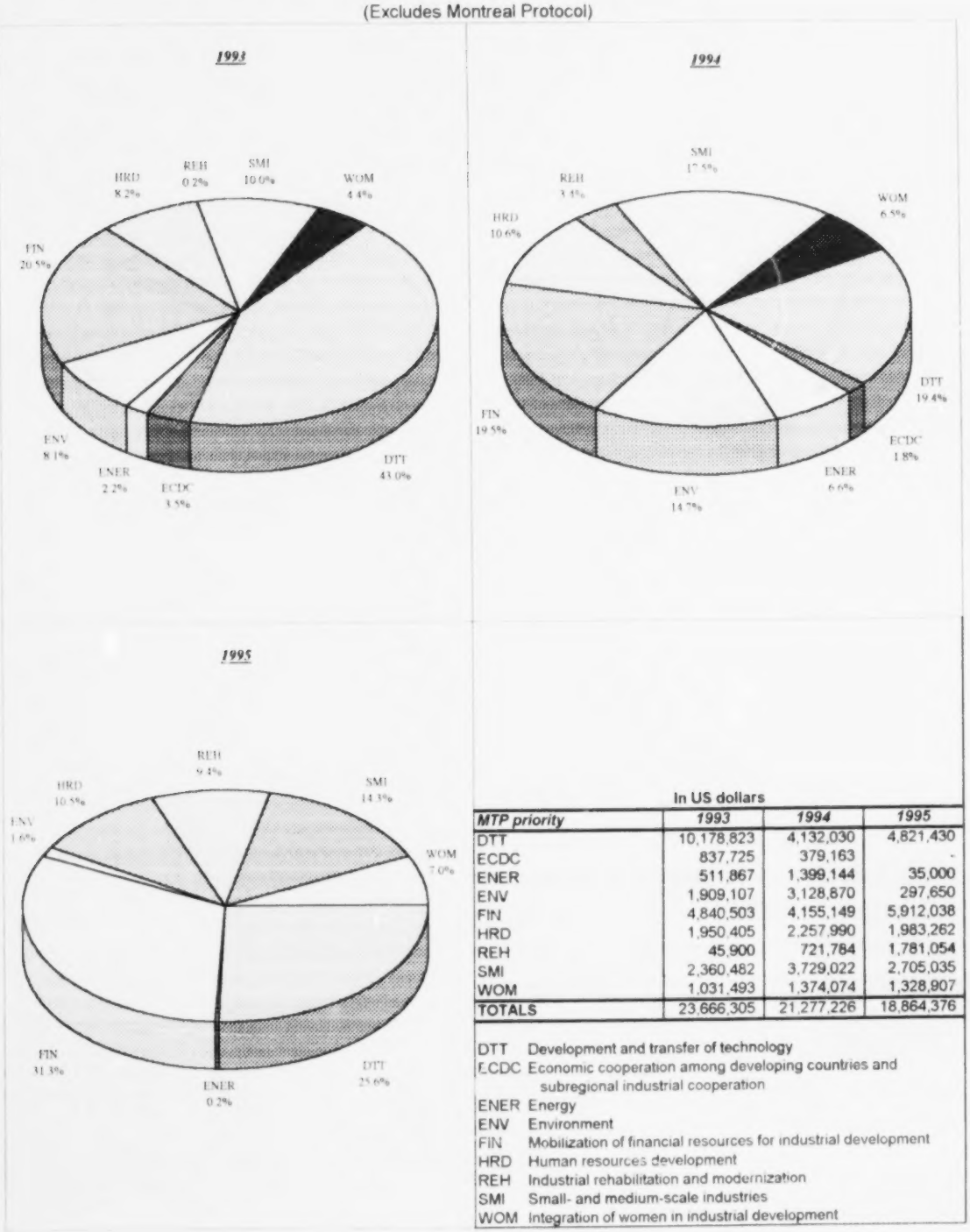


Figure 2

New IDF approvals by medium-term plan priority area and common element a/

(Excludes Montreal Protocol)



In US dollars

MTP priority	*1993*	*1994*	*1995*
DTT	10,178,823	4,132,030	4,821,430
ECDC	837,725	379,163	-
ENER	511,867	1,399,144	35,000
ENV	1,909,107	3,128,870	297,650
FIN	4,840,503	4,155,149	5,912,038
HRD	1,950,405	2,257,990	1,983,262
REH	45,900	721,784	1,781,054
SMI	2,360,482	3,729,022	2,705,035
WOM	1,031,493	1,374,074	1,328,907
TOTALS	23,666,305	21,277,226	18,864,376

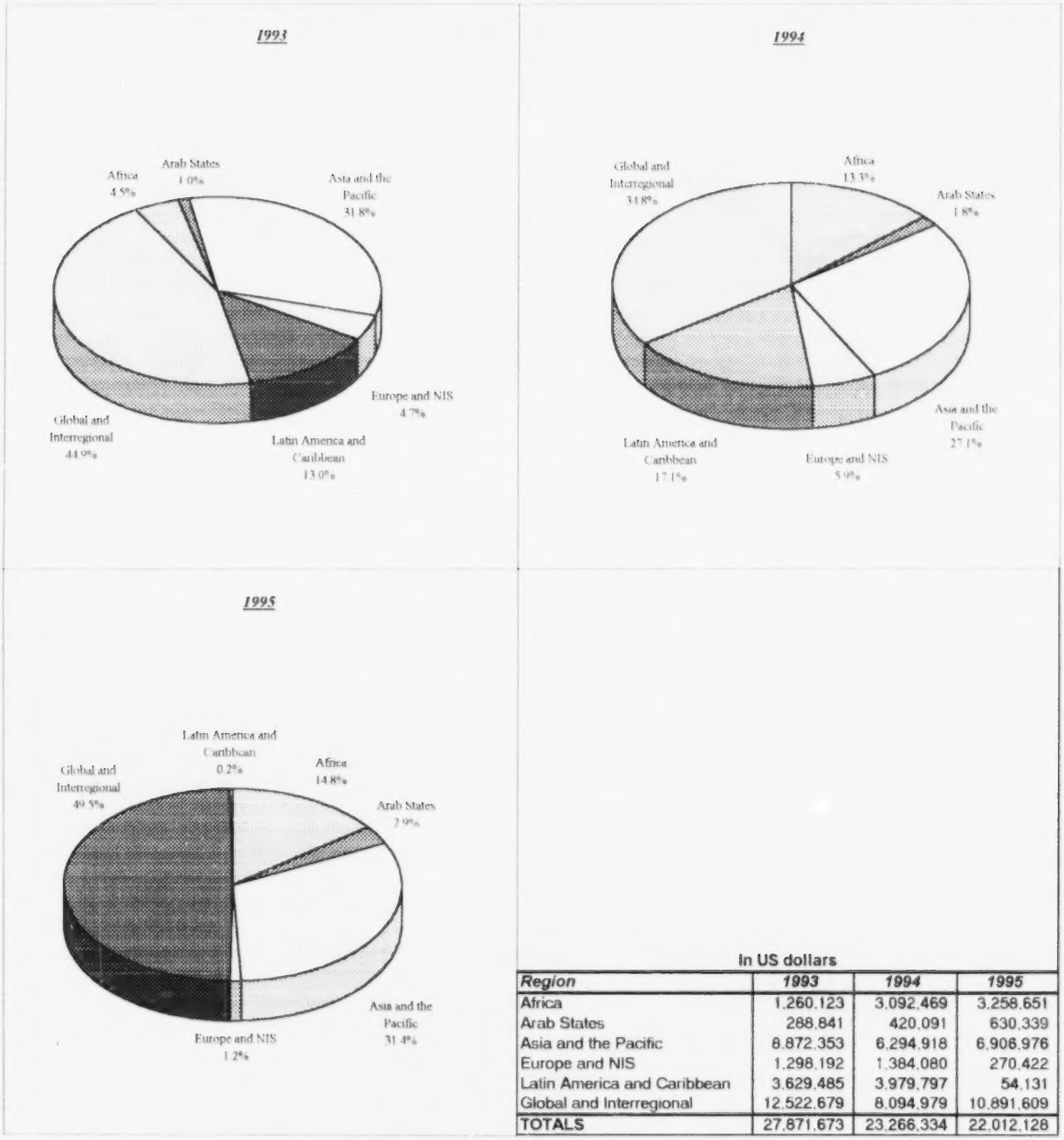
DTT	Development and transfer of technology
ECDC	Economic cooperation among developing countries and subregional industrial cooperation
ENER	Energy
ENV	Environment
FIN	Mobilization of financial resources for industrial development
HRD	Human resources development
REH	Industrial rehabilitation and modernization
SMI	Small- and medium-scale industries
WOM	Integration of women in industrial development

a/ New approvals only (excluding changes/revisions) are utilized to reflect the thematic distribution, as net figures would include projects approved prior to the establishment of the medium-term plan priority areas for 1990-1995.

Figure 3

Net IDF approvals by region a/

(Excludes Montreal Protocol)



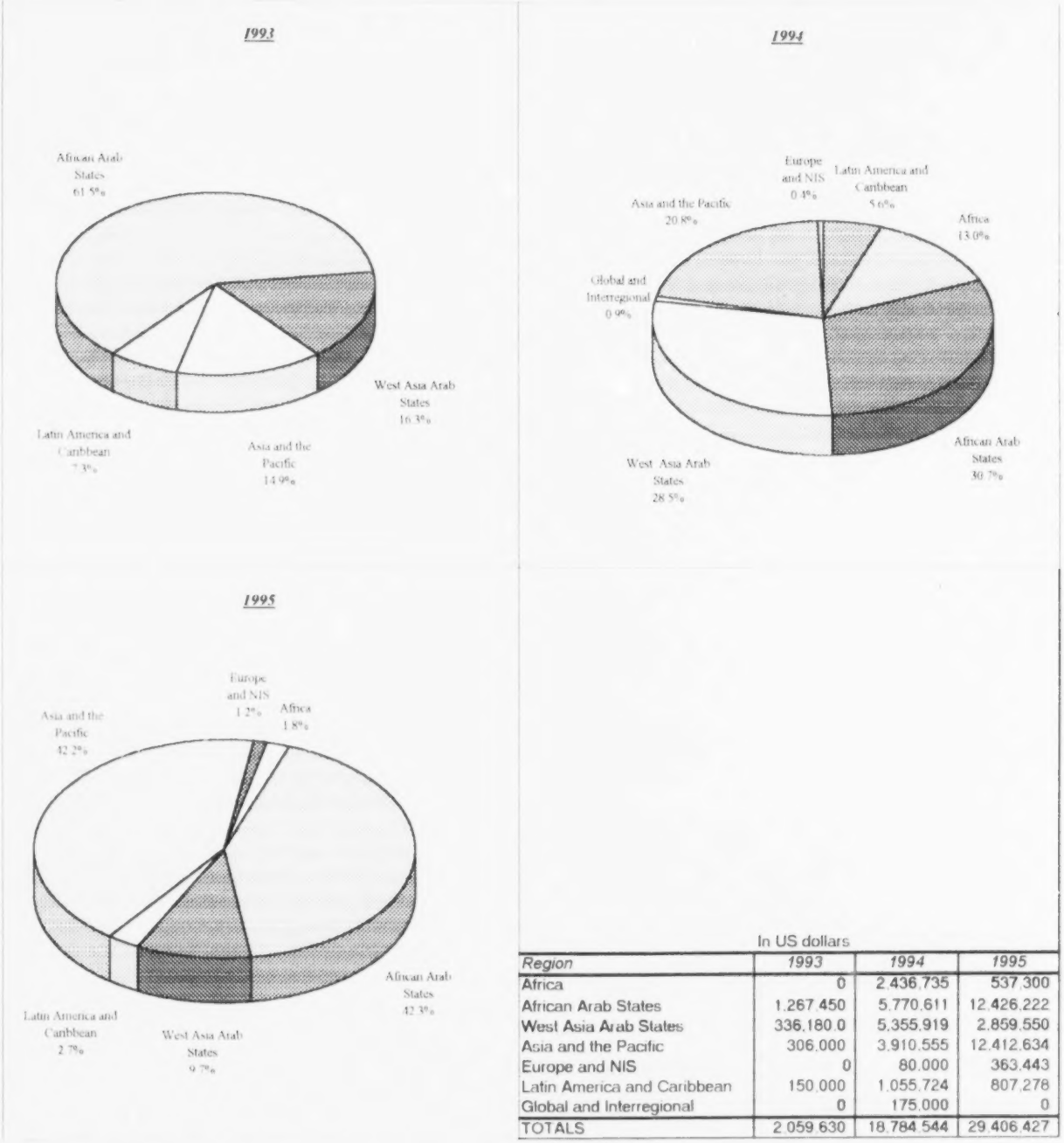
In US dollars

Region	*1993*	*1994*	*1995*
Africa	1,260,123	3,092,469	3,258,651
Arab States	288,841	420,091	630,339
Asia and the Pacific	8,872,353	6,294,918	6,906,976
Europe and NIS	1,298,192	1,384,080	270,422
Latin America and Caribbean	3,629,485	3,979,797	54,131
Global and Interregional	12,522,679	8,094,979	10,891,609
TOTALS	27,871,673	23,266,334	22,012,128

a/ Includes changes/revisions to existing projects

Figure 4

Net Montreal Protocol approvals by region a/



In US dollars

Region	1993	1994	1995
Africa	0	2,436,735	537,300
African Arab States	1,267,450	5,770,611	12,426,222
West Asia Arab States	336,180.0	5,355,919	2,859,550
Asia and the Pacific	306,000	3,910,555	12,412,634
Europe and NIS	0	80,000	363,443
Latin America and Caribbean	150,000	1,055,724	807,278
Global and Interregional	0	175,000	0
TOTALS	2,059,630	18,784,544	29,406,427

a/ Includes changes/revisions to existing projects